

# CAN MSME BUSINESS OWNERS TURN COVID-19 INTO A LIFE- CHANGING OPPORTUNITY?

THE SUPPORT FUNCTION AND  
PROCESS OF DEVELOPMENT AGENCIES



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# MSME VULNERABILITY

Micro, Small and Medium Enterprises (MSMEs) represent the largest number of businesses in the world. They are also the most vulnerable to business disruption caused by COVID-19. The United Nations for Industrial Development Organization (UNIDO) classifies the COVID-19 pandemic as a disaster and issued guidance for MSME business recovery. The United Nations Office for Disaster Risk Reduction (UNDRR) defines a disaster as “a serious disruption of the functioning of a community or society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope with using its own resources”. The ability of MSMEs to survive depends on a variety of factors, include entrepreneurship and vision of the owners, financial capacity, nature of the product, the magnitude of the impact, aid from government and development agencies, among others. Irrespective of the different factors, it is believed that with the right support, MSMEs cannot only survive but turn COVID-19 into an opportunity for a brighter future.

In this white paper, we will explore the different stages of business recovery for MSMEs based on disaster risk management cycle theory, adopted by key development agencies, and case study examples from Egypt. We structure the types of support depending on the recovery phase, as seen in figure 1.

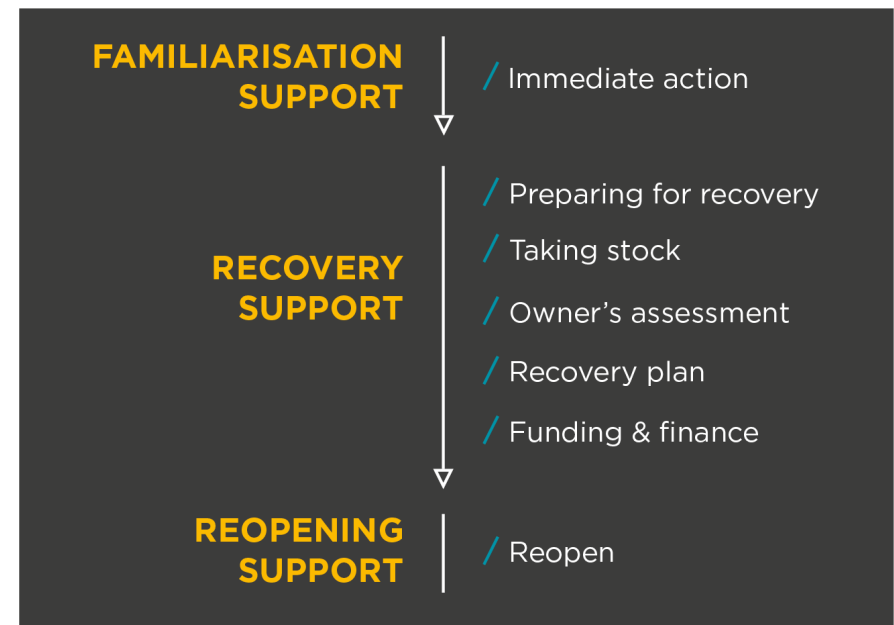


Figure 1: Source: UNIDO Guidance, for Micro, Small, and Medium Enterprises (MSMEs) on business recovery in the wake of the COVID-19 pandemic.

# THREE TYPES OF SUPPORT

Development agencies and governments consider the health, social and economic perspectives of the business when evaluating the support required to them. They try to mitigate the negative impact of a crisis like COVID-19 in the short-term while at the same time considering the long-term recovery prospects. The immediate short-term will have higher acceptance, from the MSME businesses, due to the big hit and the appreciation that these organisations “care”. The shaping of the future shall need more engagement of the businesses and hence will need to be developed closely with the benefiting community, i.e. businesses.

Support should be extended not with the objective of containing the damage but rather with the objective to plan cautiously for a better future, acknowledging that COVID-19 is both a disaster and an opportunity. In general, international development agencies focus on two levels of support interventions:

Immediate: Urgent and important emergency plan to contain losses, which include cash subsidies and access to temporary economic and financial aid.

Non-immediate: Not urgent but important, i.e., actions which prepare businesses during the recovery phase with the objective to reopen, taking into account that the disastrous situation drives changes in the market environment, with significant impact on the long-term prospects and growth trends.

Support is process oriented and is not confined to financial or physical support, in that non-material support is as important. Such support includes familiarisation, raising awareness and providing valuable information.

In this respect, we classify support into three categories;

1. Familiarisation with COVID-19 and its implications;
2. Support to survive the recovery phase;
3. Plan for reopening.



# 1. FAMILIARISATION SUPPORT

Familiarisation support implies maintaining close contact with MSMEs to familiarise them with the disastrous situation, potential implication and the process required to reopen. It includes providing facts on the situation, what should be done (the Dos and Don'ts), and what to expect during the period ahead.

The COVID-19 pandemic is classified by many health and economic experts, the WHO and UN associations as “a disaster”. In our opinion, the COVID-19 disaster possesses four key disaster characteristics: visible damage, unprecedented, unexpected and unpredictable.

1. Visible damage: the health impact is very straightforward as most countries around the world have announced COVID-19 cases with more than 15 million global confirmed cases as of 23 July 2020. In fact, the damage is obvious and paralysing from direct health and safety impact to indirect economic contraction, social disruption, and mental anxiety impact.

2. Unprecedented nature: the COVID-19 pandemic is a disaster that is unique to our recent history, due to its significant social, financial, and

economic impact, globally and simultaneously. Many economists and politicians refer to the COVID-19 outbreak, as being comparable to the great depression of the 1930's, with profound impact on economic activity and liquidity position.

3. Unexpected (in occurrence and in impact). The degree impact is always linked to the level of expectation. Not only did COVID-19 take the world by surprise, but the disaster is also highly uncertain in terms of duration, expected magnitude and complexity on both health and economic levels. The unpredictability forced governments and individuals to make unexpected decisions rapidly, as many countries went into a lockdown situation.

4. Unpredictable outcome. While COVID-19 has a direct impact on the health of an individual, it indirectly has a more serious impact on social and economic activities. This contagion effect is very similar to the value chain effect or the multiplier effect from an economic perspective.

The interrelationship these characteristics provides a “feel” of a magnified damage.

## IMMEDIATE ACTIONS ON THE MACRO GLOBAL LEVEL

The immediate reactions to remediate the sudden and short-term impact of the COVID-19 global disaster were equally serious, unprecedented and unpredictable. As a reaction to the pandemic, the world witnessed unprecedented actions from all governments, guided by the World Health Organization (WHO), with the objective to contain the spread and immediate short-term impact of the pandemic. Land and air borders were closed, group activities were stopped, sports leagues were paused, airports were closed, schools were closed and replaced by on-line learning, work was encouraged to be done from home.

Economy wise, the US alone spent over 6 trillion USD for this purpose, and yet around 40 million citizens are reported to be out of jobs, representing 20% of labour force, which is one of the highest rates ever in the US history.

Despite the fact that development agencies, governments and global/ multinational corporations always try to be prepared for emergencies “crisis management”, they were not really prepared for the COVID-19 implications. So how did governments and international development institutions react?

Their response was mainly reactive, as they didn't have a proper response for a crisis like this in place. The countries which were hit by COVID-19 somewhat later were luckier as the unexpected element was mitigated. In general, governments and international donors acted fast, disregarding bureaucratic and administrative guidelines or restrictions, however, mistakes are easily made, and institutions are doing their best to minimise the fatal irreversible mistakes and most importantly do not commit regrettable mistakes which could have significant negative impact on the long-run.

The priority of the whole world is to contain this virus, so all efforts are directed to health expenditure and measures. Second is to reduce the impact through providing economic incentives or producing policies which would stabilize the financial system and develop social protection such as temporary suspension of taxes, reduction in borrowing cost, and temporary cash subsidies until markets return back to normal.

All of the above represent immediate reaction to an unprecedented, surprising and serious disaster. Such immediate support is challenged by the fact that it can create “zombie” organisations. In this respect, the immediate support duration and magnitude should be carefully designed. Accordingly, recovery and reopening related support should be introduced in order to foster long-term sustainable growth.

## 2. RECOVERY PROCESS SUPPORT

The recovery process refers to the planning process to overcome the immediate impact of the disaster, learn from the situation as it goes and develop the planning to return to business as usual.

As a crisis period can be stressful and distracting, it is important to identify recovery Do's and Don'ts, to avoid regrettable non-recoverable actions. These are basically actions done in the short-term to reduce impact, but with significant impact, when business gets back to normal.

### Do's:

- Realise that COVID-19 is a health crisis and not an economic or financial crisis.
- Admit we are facing a disaster
- Compromise between the negatively related health and economic situation
- Take strategic decisions
- Stay open-minded and flexible
- Quantify the impact on your business and life
- Consider the recovery plan as a life-changing opportunity to rebuild for better

### Don'ts:

- Rely predominantly on best practices from previous disasters such as the 2008 financial crisis
- Fail to acknowledge the situation and maintain normal operation while you can
- Panic or lose hope
- Focus on economic impact and ignore health concerns
- Make decisions without a cost-benefit analysis
- Imply that the recovery process is known (V, U, W curved)





### 3. REOPENING SUPPORT

Key development institutions are in the business to reduce poverty and induce sustainable growth. This is however a far more difficult task during COVID-19, when most economies in the world are predicting a contraction between 8% to 15% in 2020 and have an ambiguous picture of the years to follow. The situation is changing too rapidly to make a clear prediction on future impact.

Reopening support aims to adjust the future business model to the changed market environment due to the disaster. There is an opportunity to use COVID-19 to pivot the business and use the crisis as a learning experience.

In a nutshell, this phase materialises the transformation of a disaster into a better future, realising that this is a life shaping opportunity.



The key purpose of the development agency is to turn the crisis into opportunity on the basis of the fact that the disaster is a life shaping situation. Based on the analysis provided, three actions are proposed. Each of the different action lines proposed (i.e. familiarisation, recovery and reopen), has its own pros & cons based on its nature.

## **1 Familiarisation support to maintain business existence**

A package of immediate financial and health support to remedy the losses incurred until businesses can re-operate. Given the non-compliance with program's guidelines, this requires reliance on other program's funding or adjusting this program's guidelines which resulted in some delay in furnishing such immediate support.

## **2 Recovery support to plan for the future**

Support businesses in planning and thinking during this critical phase to include detection of market opportunities or providing tailored finance to support the businesses operations. This would prepare businesses to pursue some opportunities or finance financial bottlenecks upon reinitiating business operations or during the slow paced operation phase.

## **3 Reopen support to shape the future**

Re-direct the action plans in light of the expected changes in the market, to adapt the long-term vision and action plans to the new situation.

# CASE STUDY

To illustrate the concept described in this paper, we share a case study of when HLB witnessed the application of the disaster risk management cycle on a development program in Egypt, jointly between the Government of Egypt (GoE) and the World Bank (WB)\*. The program aims to develop planning for a number of industries which work in cluster in Upper Egypt with the objective to develop action plans and provide support to the implementation.

The businesses were severely affected by COVID-19. At the time when the virus hit, HLB Egypt was finalising the development of the action plans to support the clusters' growth. As an immediate reaction, one-to-one (virtual) interviews were held with the MSMEs through a tailored structured questionnaire to assess the immediate short-term impact of COVID-19, and to identify the most effective support in the future. HLB Egypt acted quick to disseminate the questionnaire to the target households, to enable tailoring of the support interventions required. As the case with all development programs, the program is constrained with specific guidelines, which may lead to lower flexibility for fast adaptability.

The survey revealed the following results:

- Businesses were at first affected by 30% reduction in sales, which increased significantly to more than 80% of sales for businesses in the fashion and tourism sectors.
- The situation is extremely unpredictable and hence the duration of the impact cannot be expected, however, they experience significant deterioration with time so far.
- There are no specific recovery plans, but the access to cheap finance is more needed than ever, reliance on risky sectors such as tourism should be balanced and online sales should be explored further.
- They were not aware that this might be a life changing opportunity, rather were under the impression that COVID-19 would be a time of temporary losses.

In this respect, the key challenges facing these clusters are shown in figure 2.

\*The CCI program a joint cluster initiative development program (Cluster Competiveness Initiatives-CCI) between the Government of Egypt (GOE) and the World Bank (WB) aims at increasing the competitiveness of around 10 clusters/sectors in two governorates in Upper Egypt through developing long-term strategic vision and tailored action plan, on the basis of businesses' needs, taking into accounting market trends and practices. The program operates in the poorest areas in Egypt, and hope to support around 10,000 households, and more importantly create additional job opportunities to lead to sustainable economic growth. HLB Egypt Makary Consulting is the consultant in charge responsible to provide planning and to support implementation for the 10 clusters over a period of 3 years.



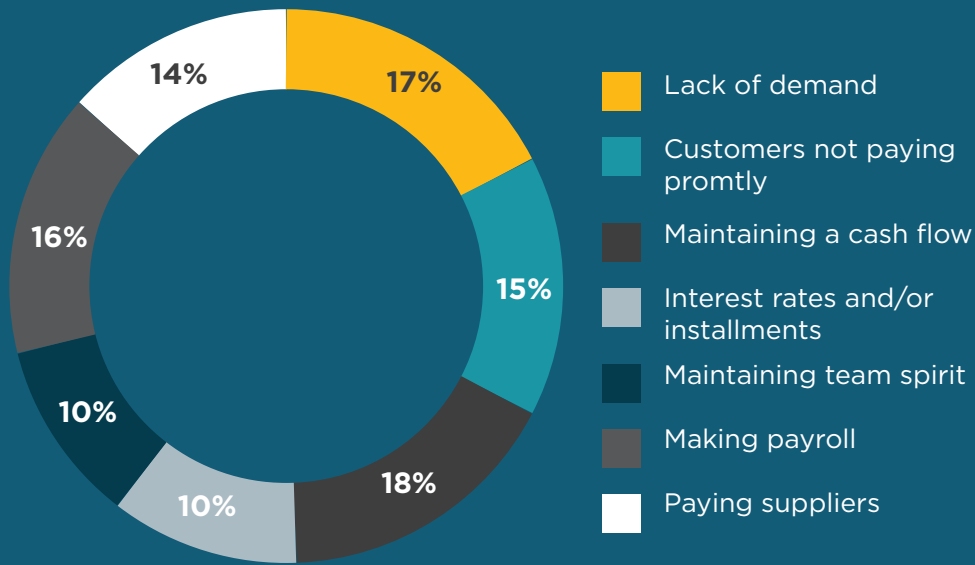


Figure 2: Source: HLB Egypt, April-May 2020

On the basis of the above, HLB Egypt developed the following;

- Quantification of the magnitude of COVID-19 impact.
- Type of support required during the recovery phase to include market opportunities.
- Changes in the developed action plan to cope with the expected changes.
- Contact with other stakeholders working in the MSMEs field to benefit from their current actions to face the current situation.

For each action, sequential steps, responsible entity, timing and impact were determined. The actions are dynamic in nature, with frequency and magnitude assessed periodically.

## GET IN TOUCH

For more information about COVID-19 recovery support to MSMEs and the role of development agencies, contact us.



**Lamy Makary**  
Report author, Partner at HLB Egypt

lmakary@hlbegmakary.com  
www.hlb.global



**Clensy Appavoo**  
Global NFP Leader

c.appavoo@hlb.global  
www.hlb.global

[www.hlb.global](http://www.hlb.global)

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